

**THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2017-28-S

IN RE: Application of Synergy Utilities, LP.)	
for Adjustment of Rates and)	DIRECT TESTIMONY
Charges and Modifications to Certain)	OF
Terms and Conditions for the Provision)	DONALD H. BURKETT
of Sewer Service)	

1 **Q. PLEASE STATE YOUR NAME, PRESENT POSITION, AND BUSINESS**
2 **ADDRESS.**

3 **A. My name is Donald H. Burkett. My principal place of business is 3101 Sunset Boulevard,**
4 **West Columbia, South Carolina 29171.**

5 **Q. WHAT ARE YOUR DUTIES IN YOUR CURRENT POSITION?**

6 **A. I am employed as the Executive Vice President of Burkett Burkett & Burkett Certified**
7 **Public Accountants, P.A. where I have worked since 1976.**

8 **Q. WHAT IS YOUR EDUCATION AND PROFESSIONAL BACKGROUND?**

9 **A. I graduated in 1974 from the University of South Carolina with a Bachelor of Science**
10 **Degree in Accounting. I am a CPA licensed to practice accounting in South Carolina and a**
11 **member of the American Institute of Certified Public Accountants. From 1974 until 1976, I**
12 **worked for a regional CPA firm before founding Burkett Burkett & Burkett Certified Public**
13 **Accountants, P.A. in 1976. I am a past President of the South Carolina Association of Certified**
14 **Public Accountants. I am a past Chairman of the South Carolina Board of Accountancy, which**
15 **regulates the licensure and practice of accounting in the State of South Carolina. Most recently, I**
16 **served as the Chair of the National Association of State Boards of Accountancy. I have been**

involved with auditing, tax return preparation, financial services, and advisory services for my entire career for a variety of clients, including regulated utilities.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been retained by Synergy Utilities, LP's ("Synergy" or "Company") to prepare the financial schedules submitted in connection with its application. The purpose of my testimony is to support the application for an adjustment of certain rates and charges for the provision of sewer services.

Q. WHY IS SYNERGY REQUESTING RATE RELIEF AT THIS TIME?

A. Synergy Utilities, LP is the result of the merger of the utility assets of Development Services, Inc. ("DSI") and Midlands Utility, Inc. ("MUI"). DSI previously filed a rate case in 2014 and MUI previously filed a rate case in 2004. The combined utilities have seen an increase in operating expenses since the last filed rate cases. The utility operations of MUI alone have generated substantial losses. Synergy requests rate relief in order to ensure continued efficient operation of the utility and also a return on investment to its owners.

Q. PLEASE DESCRIBE THE SCHEDULES IN THE COMPANY'S APPLICATION.

A. The Rate Case Application includes the financial statements for Synergy. The subsections are as follows:

Schedule A – Balance Sheet

Schedule B – Current and Pro Forma Income and Expense Statements

Schedule C – Schedule of billed revenue at current and proposed rates

Schedule D – Schedule of fixed assets and depreciation

Schedule E – Schedule of present and projected customers

Schedule F – Proposed revenues

1 Schedule G – Schedule of proposed rates

2 **Q. PLEASE EXPLAIN HOW THE TEST YEAR EXPENSES WERE ADJUSTED.**

3 **A.** Pro forma adjustments were made to the test year expense based on known and
4 measurable changes to actual expenses.

5 **Q. WHAT ARE THE KNOWN AND MEASURABLE PRO FORMA ADJUSTMENTS**
6 **MADE TO THE INCOME STATEMENT SCHEDULE B?**

7 **A.** The major known and measurable pro forma adjustments made to the income statement
8 Schedule B are as follows:

- 9 • Operating Revenue – We based proforma operating revenue on the number of customers
10 at June 30, 2017 to which Synergy provided sewer collection and treatment services and
11 used the rates which were effective at that time. Operating revenue related to sewer
12 treatment for customers for which Synergy only provides collection services was not
13 included in proforma revenue. The operating revenue adjustments and removal of pass-
14 through revenue decreased proforma operating revenue by \$197,199. Proposed rates
15 increased proforma operating revenue by \$232,590.
- 16 • We decreased payroll expenses to remove compensation not related to utility operations
17 and also increased payroll and benefits expense to reflect 3% annual salary increases since
18 the previous rate case. We removed amounts paid to outside treatment providers that were
19 recorded as treatment expense in keeping with the reduction in operating revenue related
20 to amounts collected for treatment by outside treatment providers. We adjusted regulatory
21 commission expenses to reflect estimated expenditures for this rate case. Overall these
22 adjustments decreased proforma operation and maintenance expenses by \$301,805.

- 1 • We adjusted depreciation from tax depreciation to NARUC depreciation. This resulted in
2 an increase in depreciation of \$47,298.
- 3 • Non-utility property and related income and expenses have been removed. This resulted in
4 a decrease to other income and deductions of \$220,147.
- 5 • We have increased interest expense due to debt issued at end of test year for plant in service
6 and utility bond requirements. This resulted in an increase to interest expense of \$17,282.
- 7 • We recorded both federal and state income taxes on the projected net income using the
8 rates in effect at the filing of the Application. This increased federal income taxes by
9 \$59,561 and state income taxes by \$9,220.

10 **Q. WHAT WAS INVOLVED IN THE CREATION OF SYNERGY UTILITIES, LP?**

11 **A.** In previous rate cases for both DSI and MUI, the ORS has recommended that the owners
12 of the two utilities merge the operations in order to benefit ratepayers through economies of scale
13 and the burden of only one performance bond. The owners examined multiple business forms and
14 structured transactions in order to accomplish this merger and decided the most beneficial plan for
15 all stakeholders was the formation of a partnership to hold the utility operations with DSI and MUI
16 both contributing utility assets to Synergy Utilities, LP. As such we have taken into consideration
17 generally accepted accounting practices along with the NARUC system of accounts in order to
18 correctly value each partner's contribution to the capital of Synergy Utilities, LP and to ensure
19 compliance with NARUC accounting. As an operating entity for a utility Synergy will maintain
20 its books and records in accordance with the NARUC regulatory basis of accounting.

21 The application process presented as one entity the combined results of both DSI and MUI during
22 the test year. Synergy began operating as a utility in September 2017.

1 **Q. WHAT IMPACT DOES THE TAX CUT AND JOBS ACT HAVE ON THE**
2 **COMPANY'S RATE REQUEST IN THIS CASE?**

3 **A.** Synergy Utility, LP filed this rate case prior to the enactment of the Tax Cut and Jobs Act
4 ("the Act"). Therefore the reduced corporate rate was not included in the rate application. The
5 federal corporate income tax rate set by the Act will be 21%. Due to the rate change from 34% to
6 21%, we have calculated a decrease in the federal income taxes of \$22,773. However Synergy is
7 still evaluating the impact of the rate change. Synergy operates as a partnership and as such pays
8 no federal or state income taxes as its income will be passed through to its partners and taxed at
9 the partner level.

10 **Q. WHAT RATEMAKING METHODOLOGY DOES THE COMPANY PROPOSE**
11 **THAT THE COMMISSION EMPLOY IN THIS RATE CASE?**

12 **A.** The Company proposed that its rates continue to be determined utilizing an operating
13 margin methodology. The application proposes an operating margin of 8.91%. The application
14 of the operating margin methodology in setting rates is a standard practice well known to South
15 Carolina regulators and applies equally to both small and large utilities.

16 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 **A.** Yes it does.